

Leadership during Crisis: Threat Identification and Solution Proposal

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Abstract

Purpose of the article: In the current dynamic market environment, companies are vulnerable to many problems of different character, which could result in a real business crisis. The submitted study summarizes possible approaches to leading through crisis. Therefore, proposal of solutions, which tools leaders could use during crisis, was made. Purpose of this study is to create theoretical framework for the future research. Especially of right leadership concept application during crisis.

Methodology/methods: The Ishikawa diagram was for the purpose of the illustration possible threats, which can lead to a business crisis chosen. Next up was a review of scientific publication focused on leadership during crisis made. With emphasis especially on, research studies published in last 10 years in the Leadership Quarterly Journal. These results were analyze precisely and then the most useful information synthesized into proposed solutions.

Scientific aim: The aim of this study is to identify possible threats, which could be a source of corporate crises. Subsequently, propose solutions within the competence of corporate leader, how to prevent these threats or lower the intensity of crisis which already are occurring.

Findings: Proposed solutions were in the field of HR leadership, crisis communication, leader's behavior connected with leadership style used during crisis and increasing effectivity of crisis team leadership found. The application of mentioned approaches, contribute to preparedness on the possible negative future development and reduce the intensity of crisis, which has already affected the corporation.

Conclusions: The contribution of this study is creation of synoptic overview of corporate threats and proposal of corresponding solutions of those. The implication is to summarize results from previous empirical studies to create enough theoretic foundation for future research.

Keywords: leadership, Ishikawa diagram, business crisis, threats

JEL Classification: M21

Introduction

Some authors argue that with the perceived proliferation of extreme negative events, and the concomitant increase in crisis reporting, crises can seem to be normal occurrences in organizational life (James, Wooten, 2010; Pearson, Clair, 1998). While the reality of this perception is debatable, the need for managers and leaders to be perceptive in crisis handling is undeniable. Not all the leaders will experience an event on par with the magnitude of a bankruptcy or a natural disaster, the need to build capabilities to respond to unusual threats (crises or otherwise) is growing in significance. An important first step is to differentiate true crises from business problems, so that managers can act accordingly in both types of situations. An adverse consequence of failing to differentiate between business problems and true crises is that leaders might falsely create a culture of crisis in their organizations. Constant reactivity and unsustainable levels of employee fear and anxiety can characterize such a culture (James *et al.*, 2011).

Therefore, leadership plays an important role during crisis events e.g. by maintaining a positive organizational culture. Cameron (2008) have identified this approach as positive leadership. On the surface, positive leadership during crisis may seem to be an oxymoron. Crises, after all, are negative events, and elicit negative emotions and corresponding behaviours (Brockner, James, 2008). In a crisis, leaders serve as a repository for people's fears. Leaders can also act as a mirror reflecting a group's anger, grief, resolve or joy on a much larger stage than is available to most. Leaders say in effect "I hear you" (Useem, 2001). However, it is difficult to feel or react positively to threatening events or when experiencing an inordinate amount of stress). Yet, the possibility to do so indeed exists, and scholars across multiple disciplines, particularly psychology and management, are introducing conceptual and theoretical ideas as well as empirical investigations that can advance crisis management research and practice (James *et al.*, 2011). According to James and Woten (2010), enterprises have always been and will be vulnerable, to the some form of crisis. They define crisis as a rare, significant, and public situation, which create highly undesirable consequences for the enterprise and its stakeholders and requires from the business leaders immediate corrective action. By this definition, crisis comprise three key elements, ambiguity, high stakes and perception of urgency. These points differentiate business crisis from other problems and challenges, which organizations and its leaders must face. Moreover, are

crisis unique by, as infrequently occurs, range in which affect stakeholders and probability with have an impact on public relation (James, Wooten, 2010).

1. Theoretical framework

Before we discuss the role of leadership concept during the corporate crisis, it is suitable to mention the theoretical background. In connection to this, several theories have described the leader's behaviour. Authoritative leadership style typically involves one-way communication from the leader to the follower, attention is on work processes, progress and achievement of objectives focused (Tseng, Duan, 2010). Paternalistic leadership style, also called democratic could be according to McLaughlin (1993) summed up by saying, "Work hard and company will take care of you." Participative leadership is the approach, where the attention is not primary focused only on the goal, but also on the followers. Transactional leadership helps motivate subordinates to the desired performance by assigning responsibility for the tasks, identifying the objectives, providing confidence in the fulfilment of the required tasks (McLaughlin, 1993).

Then, some of new modern approaches like for instance transformational leadership been introduce. This type of leading have helps to manage all kinds of organizational changes. To be successful, leader have to develop good plan of change, but also overcome resistance, or distraction of the consequences of proposed changes. There is a certain similarity with crisis management, but transformational leadership takes place in a significantly longer period of time (Wart, Kapucu, 2011). The basic characteristic of a transformational leader is to trust the potential of co-workers. Significant manifestation is that collaborators want to fulfil the expectations of those who lead them, they want to be as good as the one who leads, they want to do more than what is expected, they are committed to their organization and believe in it (Pieterse *et al.*, 2010). As another contemporary concept Brown and Trewino (2006) mentioned ethical leadership. They describe ethical leadership as an approach based on mutual communication between leader and co-workers (Two – Way communication). Important is to support of colleagues and the ability to make good decisions. Specific leader traits identified through interviews are honesty, integrity and ethical behaviour. They also cite kindness and consistent individuality, as essential characteristics, which is doing fair and balanced decisions. Next up the approach called

authentic leadership. It is describing the leader as a personality who acquires authenticity (credibility), by using self-confidence, self-acceptance and trusted relationships and actions (Gardner *et al.*, 2005). The last mentioned concept in this study is spiritual leadership. This approach introduces values and behaviours that intrinsically motivate employees, who feel that they are part of a greater whole (Fry, 2003). Reave (2005) explains that it is necessary for the leader to embodied the spiritual values that include integrity. Leader is an example of a credible personality that develop these values in corporation. Consistency between behaviour and moral principles (integrity), is common both to the ethical and spiritual leadership.

2. Methodology

Research in the crisis domain offers considerable methodological variance. Surveys, experiments, scenarios, simulations, participant observation, interviews, and other forms of data have informed a broad spectrum of crisis-related issues. Yet, no particular research methodology or topic is without flaws and challenges. Research in the field of managing crisis is especially vulnerable to methodological difficulty, given the sensitive nature and legal issues that surround business crises. When planning a field study, researchers face several concerns. Because crisis can't be due to the processes needed to arrange and carry out the studies planned or anticipated, data gathering, efforts of a typical field study may take more time than is feasible. Conducting a field study during a real-time crisis, researchers may face often-insurmountable problems of attaining permission and access to people involved in the crisis. Thus, researchers attempting to study crisis often need to look to historical or archival sources for data. This approach will in this study to accomplish set goal be used. The aim of the study is to identify possible sources of business crisis, but also to find corresponding solutions within the competency of manager in the role of business leader. Therefore, the results of previous empirical studies will be the main source of information.

The Ishikawa diagram was for the purpose of the illustration possible threats, which can lead to a business crisis chosen. This approach allow seeing the potentially problematic factors with all its circumstances. Therefore clearly shows a comprehensive review of typical business threats. To identify these factors were the studies conducted by Dayton (2004) and Cozmei, Serban (2014), dealing

with possibilities, which can lead to business crisis used. Found sources of crisis were by publication of Smejkal, Rais (2013) complemented and then clearly united on Figure 1 through Ishikawa diagram. Here we see that possible sources of business crisis could be in four main branches structured as organizational inefficiency, general sources of the crisis and internal and external sources of the crisis. These four branches contain particular factors, which when are underestimated could lead to business crisis. After identifying, possible sources of business crisis a proposal of some solutions how to prevent those was in the competency corporate leaders made. When solving how to prevent those, review of results was make from past empirical studies. Especially research studies published in last 10 years in the Leadership Quarterly journal was the valuable source of information. These results was precisely analysed and then the most useful information synthesised into proposed solutions. Unfortunately, not all analysed threats are leaders able to cure within their competencies, but for the major part of threats, crisis plans and procedures how to react could be prepared.

3. Results

3.1 General and external sources of the crisis

Manager's in the role of leaders are usually suitable to solve identified problems within their competency. Although, possible external sources of the crisis as natural disasters, alienation of intellectual property, inefficient licensing legislation or sudden changes in suppliers pricing policy could affect only partially. Bad management decisions, technical problems or human failure are for leaders also difficult to prevent, but they can at least lower the intensity of impact according to Smejkal, Rais (2013). To be prepared for this negative events and be able to solve the possible problems there could be recommend for leaders to use the advantages of good communication management. Dolphin and Ying (2000) investigated the role of communication management, and the result of their research was that it is a key area of strategic planning. They report the impact in relation with a good reputation for developing brand image and corporate identity. Corporate communication, define Goodman (2006) also as a function of the field of strategic management. Depending on the enterprise, it involves working with public opinion and media communication, emergency and crisis communication, effective internal communication and good social relationships between employees, good

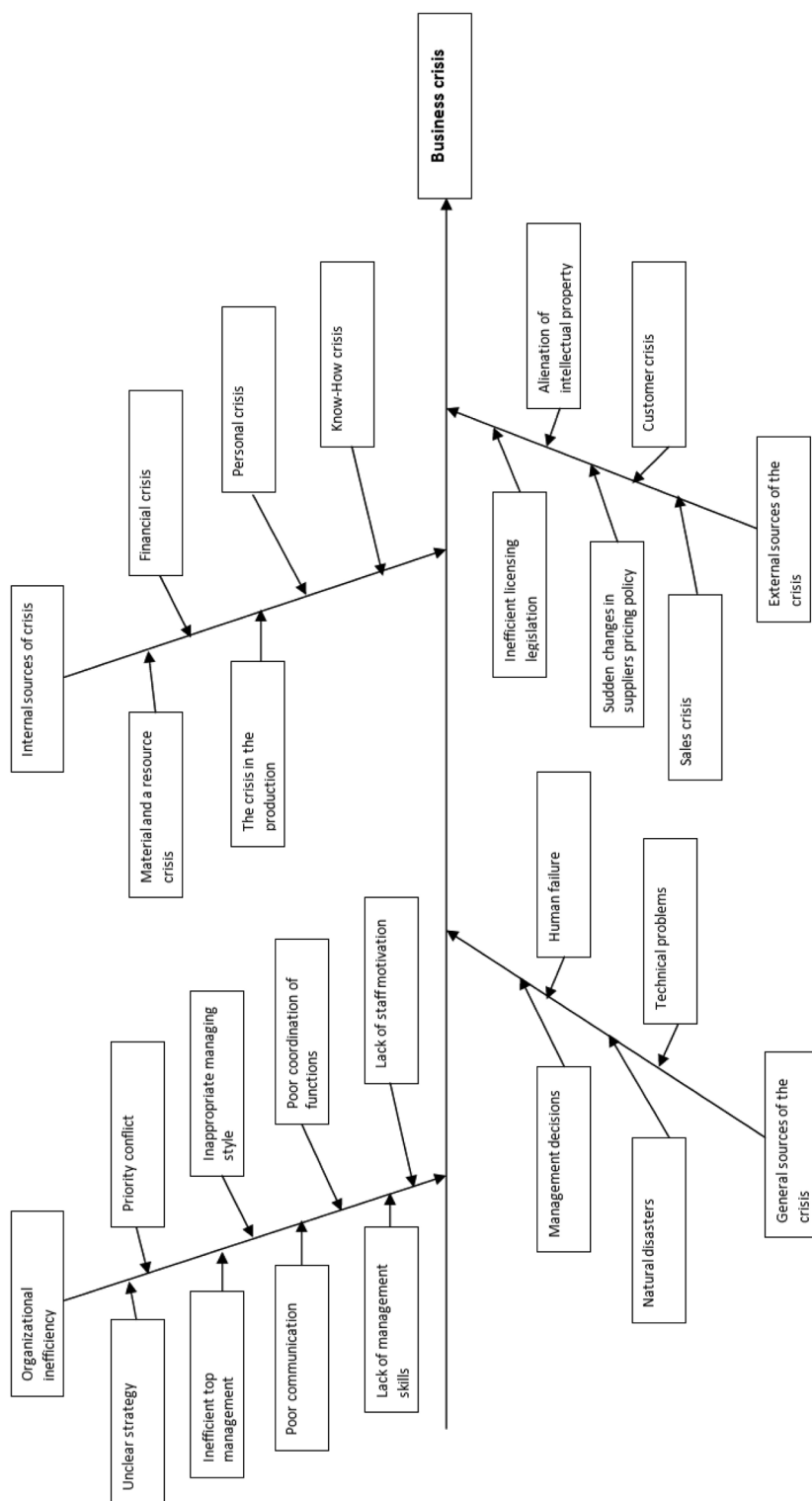


Figure 1. Ishikawa diagram – Source of business crisis. Source: Own work in accordance to Dayton (2004), Cozmei, Serban (2014), Smejkal, Rais (2013).

Table 1. Ten steps of efficient crisis communication.

Step	Key step	Description
1	Identification of the crisis communication team	Ideally, the team will be by the organization CEO led, other team members should be the heads of major organization divisions, to include personal, finance and operations.
2	Identify spokespersons	It is appropriate to train spokesperson previously in internal and external communication, so that they are in a crisis, able to present critical situation in front of the staff and to the public.
3	Spokesperson training	During the training, the spokesperson learns how to be prepared to respond to questions and to concept their answers to be acceptable for all stakeholders.
4	Establish notification systems	The means to reach our internal and external stakeholders using multiple modalities.
5	Identify a know your stakeholders	Great emphasis is on the employee, as a representative of public opinion placed, which must special attention had.
6	Anticipate crisis	Vulnerability audit should contain Evaluation of negative situations, which can be avoid. Creating scenarios that may occur at worst.
7	Develop holding statements	Allow you to create supportive statements in areas of expected vulnerability of the company and have it ready support in case of a crisis and the need to inform about future action.
8	Assess the crisis situation	In this step, it is appropriate to have prepared previous steps in the context of rapid response to crisis. Otherwise, there is a delay in the response in relation with their preparation. Possibility is to an external crisis specialist hire quickly, but not even hastily formed emergency teams, do not achieve such efficiencies, as if the enterprise is to crisis prepared.
9	Identify key messages	The team already knows, categorically, what type of information its stakeholders are looking for. Have no more than three main messages for all stakeholders and, as necessary, some audience-specific messages for individual groups of stakeholders.
10	Riding out the storm – crisis situation	Some of stakeholders are probably not going to react the way you want. Take an objective look at the reaction in question. Is it your fault, or their unique interpretation? Decide if another communication to those stakeholders is likely to change their impression for the better. Decide if another communication to those stakeholders could make the situation worse.

Source: Bernstein, 2004.

investor relations and marketing communications services including image building and brand development of the enterprise. In the context of crisis management Bernstein (2004) compiled 10 steps of efficient crisis communication, while the first seven even before the crises occurs could be prepared.

3.2 Internal sources of the crisis

When discussing the role of the leader, when the corporation is threaten by internal sources of the crisis, the human resource management plays an important role. Reducing the number of employees is among the first and most common solution of crisis. It is simple solution, but it is also easy to make many mistakes. In a practice following strategies could be there applied.

First strategy is about keeping stable employment. Prerequisite is to maintain stable production and employment in the normal working time. According to Grznár, Szabo (2009) fluctuations in sales can be through stocks of finished products, using

overtime work or part-time workers, subcontracting, or postponing orders compensated. The advantage of this strategy is a better work ethic and higher efficiency of work that comes from a good relationship with the company. Positive factors include lower staff turnover, attracting good employees and reducing the cost of training new employees. This policy is typical for companies that have resorted to layoffs only when are hit by a major crisis of sales.

Second strategy is about keeping stable level of producing. It applies when products selling are relatively stable *e.g.* food companies, refineries, energy companies *etc.* The advantage is the use of the full capacity of the production facilities. Reduced are the work overtime and staff training cost. Austerity measures in the personnel area can't be ruled out, but also during them continue business fight for talents and top experts. These employees are the core, therefore when crisis occurs the corporate can rely on them. Hence, it is very important to consider the right level of redundancy and skill level of positions

hardly replaceable by key experts (Grznár, Szabo, 2009).

It is possible to mention some cases, how the Great Depression in 2008 affected large companies operating worldwide. AstraZeneca had to lay off more than 8,000 employees. The carmaker Bentley in response to reduced demand, applied in agreement with the employees seven-week shutdown in the United Kingdom (UK). Toyota also in the UK reduced working hours by 10%, but 200 workers lost a job (Marchington, Kinighou, 2012).

Another factor affecting the performance of a company-experiencing crisis is the staff perception. Particularly how employees who were not dismissed perceive their situation. Based on research in the crisis period, it has been found that reactions are quite varied (Brockner, James, 2008). Empirical research showing, that even layoff survivors react negatively, in the form of reduced organizational commitment, or job performance. For instance, Maertz *et al.* (2010) showed that recent survivors of layoffs have lower perceived organizational performance, lower job security, lower affective and calculative attachments to the organization and higher turnover intention, than those in companies, which were not downsizing.

3.3 Organizational inefficiency

In the field of organizational inefficiency, most of the factors can be by leader behaviour positively involved. To solve problems represented by organizational inefficiencies *e.g.* lack of staff motivation, lack of management skills, poor coordination of functions *etc.* is to apply below mentioned strategies suggested.

Employees and management may perceive the crisis as a threat to existing contemporary level of business productivity and feel some degree of anxiety. One of the factors that may affect the response of followers to the crisis is expression of leader emotions. Co-workers feel the emotional signals and it affected how they interpret the severity of the crisis and the organization's ability to respond to the situation (Pescosolido, 2002). For example, Kets de Vries (1998) found that co-workers feel during the crisis more committed to leader, hence providing them with direction, and safety. In this period, it is appropriate that the leader through his activities show support to all followers. Bonno, Illies (2006) suggests, that if the leader sends a positive emotion, it has a positive effect on colleagues and they evaluated leader positively. However positive emotions are not always the best, or a natural reaction to crisis. If the leader expresses inappropriate emotions, it

arouses negative feelings among co-workers. Anger is associated with power (Tiedens, 2001), but if the leader in a crisis situation acts only angry, it may be considered too hostile and offensive, and again gives rise to negative feelings among co-workers. According to Gaddis *et al.* (2004), sadness arouses compassion, but is also associated with weakness and therefore arouses negative emotions among colleagues. However, if the leader expresses both emotions, sadness and anger, then it can be a very effective strategy, as communicated strength and compassion, which, does not cause a negative reaction, as if only expresses sadness or anger (Madera, Smith, 2009).

James and Woten (2005) defined in their empirical study six core competencies of a leader in a crisis leadership.

Building trust it is essential, without trust are the decisions in the organization and implementation of the chosen strategy are doomed to fail. In short, it is not possible to underestimate the impact of human factor in an enterprise. For leaders, this means that they should create an environment of trust for all business areas, including also those that may be by the crisis affected. To build environment of trust, it is necessary to communicate openly, honestly and often with followers.

What is important is the willingness to share information, which sends a signal to stakeholders that they are important for the enterprise. Communicating expectations also has its share of building trust, it is appropriate to make clear what is from the people expected to avoid misunderstandings.

Third core competency is to create new corporate mind-set. External pressure on profits and business performance may focus corporate vision primarily on one stakeholder. Such a focus can lead to risky and bad decisions, and neglecting other stakeholders at the same time. Task for leaders, is to create a new expansive thinking, where the company is from above see. This perspective, allows to perceive the company as a whole, recognize and to appreciate the competence and responsibility to all stakeholders. Assessing the situation from different angles and subsequently, make appropriate decisions, which can significantly reduce the likelihood that the business will be by the crisis affected.

Another task is to identify vulnerable areas. Leaders identify areas of vulnerability and create the crisis plans to solve common threatening situation. For example, in a manufacturing company it may be solving a safety problem or failure of production equipment. Subsequently leaders focus on developing plans for less common threats. Of course, it

cannot be an emergency plan for all threats drawn up, but the problems, which the company routinely faces, have to be well treated.

Then James and Woten (2005) discuss the implementation of smart and quick decisions, when problems occurs. The traditional approach to decision making involves information gathering, creating alternatives, evaluating alternatives and the subsequent decision. However, during the crisis, leader face a shortage of information and a lack of time for decision. Therefore, there is a tendency to leave the decision-making for selected group of experts, or employees with excellent knowledge of the problematic area. Hence, they reduce the risk of uncertainty, which is typically a significant in the course of crisis.

In turbulent times, it is necessary to take courageous action. Courage during the crisis is an important competence and desired property. In the time of crisis companies, tend to avoid risk taking. Given the considerable uncertainty that accompanies the crisis and its imminent outbreak again, they try to respond very conservatively. This phenomenon is "thread rigidity" called. It is something like stiffness due to the threat. By contrast, crisis leaders approaches the crisis as an opportunity for the company. They think about, how to achieve that post-crisis business will running better.

Moreover, a lastly, important is to get lesson from the crisis for effective change. This lesson involves a review of organizational culture, policies and processes up to the level where the crisis arose. The equally reward workers who actively communicate and administered truthful information about the problems of business (James, Woten, 2005).

Sailor (2013) extends these referred competences on another important area of leader influence,

which he consider as a proper foundation to be able successfully lead during crisis. Firstly, the basic building block is again trust in leader. After this step is established, there is place for inspiration. It is the leader's responsibility to give followers hope and faith in the work place. Especially during crisis, it is important to set right level of motivation, because motivated personnel will perform beyond the leader's expectation. In summary, everything considering leadership competencies are a great instrument how to face the crisis. Respected leaders who can show genuine compassion represents credibility for those who lead, and to better face the crisis. This mentioned behavioural traits, can also prevent internally generate ones (Sailor, 2013). Here we see on the Figure 2, according to King (2002) the leadership ability as one of the main factors affecting the effectiveness of the crisis team mentioned.

Companies have found the many benefits of teamwork. Teams usually generate more ideas, stimulate creativity and promote consistency in important decisions (Beebe, Masterson, 2000). On the other hand, there are also some disadvantages. Teamwork takes time, energy and resources, also conflicts may occur (Mullen *et al.*, 1994) due to the dominance of some team members, or conversely lax attitude of some members due to reduced individual responsibility (Beebe, Masterson, 2000; Engleberg, Wynn, 2000).

When we discuss other represented factors, place has a prior interaction or group familiarity. Assuming there are good relationships among the team members, they are more open to learn from each other, communicating more open, enjoying together work and are more satisfied with their work outputs (Gruenfeld *et al.*, 1996). Next factor is a team

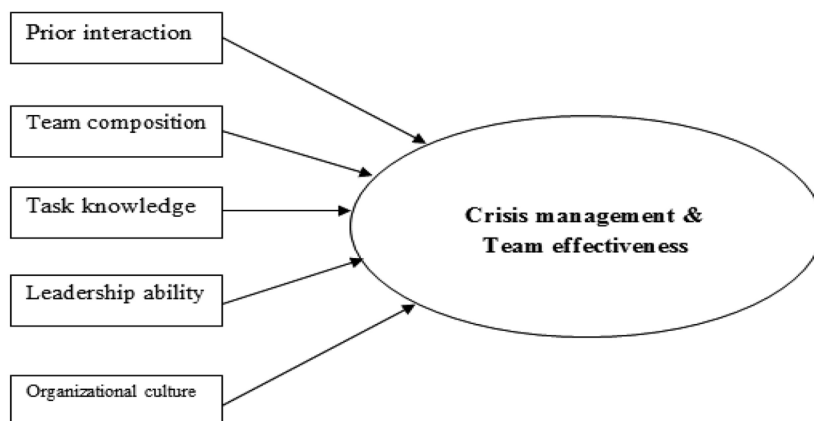


Figure 2. Factors, which affect team effectiveness during crisis. Source: King, 2002.

composition. In addition, diversity of the crisis team members may affect their performance. According to King (2002), heterogeneous teams generate more ideas and have a better working output than homogeneous teams. A very important basis for decision-making, are the knowledge of the task. Especially if the task is more complex and has a high degree of impact, it is important that the team members have enough knowledge to make the right decisions (Devine *et al.*, 1999). Many authors agree that the application of the appropriate concept of leadership is the foundation for successful crisis management (James *et al.*, 2011; Haslam *et al.*, 2001; Hunt *et al.*, 1999; Meindl, 1993). Last point is by organizational culture represented, which constitutes a pivotal role in coping with the crisis. It is one of the major factors determines how strongly crisis hits a company and whether it survives (King, 2002). Researchers define organizational culture as what employees perceive and how this perception creates sum of the values, expectations and beliefs (Gibson *et al.*, 2000). Ray (1999) suggests that crisis leadership starts with setting the appropriate organizational culture. The presence of the arrogance with lack of common sense can result in a crisis. For example, managers and executives who are convinced that their corporate is almighty may find that they are not ready for a major crisis that could threaten the company.

4. Discussions/conclusion

Based on the analysed studies, it is possible to express that businesses are by external as well as internal factors caused crisis threatened. It is important to determine which factors are involved in causing crisis, and assess possible consequences. In connection with the unfavourable situation in the company, managers with great leadership ability gain a significant role (Răducan, 2014). The results of several studies suggest that an authoritative leadership style is typically preferred in the presence of crises and threats (Gartzia *et al.*, 2011), so as to coordinate efforts in one direction, as identified by the leader (Mulder *et al.*, 1986). Research has suggested that as threats become overwhelming, individuals in a group expect leaders to centralize authority and take action (Gladstein, Reilly, 1985; Isenberg, 1981; Hannah *et al.*, 2009). Likewise, research by Mulder and colleagues (Mulder *et al.*, 1971, 1986) suggests that decision making during times of crisis should not be shared and that a powerful type of leadership is preferred by direct reports and is evaluated more favourably by leaders' superiors. By contrast are in

this study evaluated the benefits of team effectiveness during the crisis according to King (2002).

Results also suggest that more power and less open consultation is in crisis vs non-crisis situations typically used (Mulder *et al.*, 1986). Although, the firm's ability to inform at the right time all stakeholders with substantial plays a crucial role. Appropriate communication with company management, its employees, and the surrounding environment gains in uncertain times in importance. Therefore, this study presents several basic steps, which could be take according to Bernstein (2004),

In addition, a study by Van Wart and Kapucu (2011) explored leadership competencies during times of catastrophic crises. In this context, strong decisive leadership, characterized by: self-confidence, decisiveness and analytic ability, willingness to assume responsibility and the ability to delegate were preferred over consultative and transformational competencies (*i.e.* the need for achievement, consultation and people development). It is obvious that leaders, who are experienced in a particular industry, profession or organization, can utilize accumulated knowledge to make better decisions in crises (Walumbwa *et al.*, 2014). Usually efforts of leaders to build a healthy corporate culture of trust or make rapid and appropriate decisions are in times of crisis essential to survive (James *et al.*, 2011). In the framework of HR, leaders can properly adjust use of the key personnel and optimize sales capacity of the company (Grznár, Szabo, 2009), for example, there are proposed useful solutions how to keep stable employment in a crisis period. Subsequently, they are key competences of leaders to build procedures and methods, thanks to which it is possible to learn from the crisis and prevent it in the future (James, Woten, 2005).

To conclude the study, it is suitable to mention that proposed solution within the leader competency, almost completely cover the threats identified in the Ishikawa diagram. The main contribution of the paper is unification of researcher's opinions, which factors may lead to business crisis through the Ishikawa diagram. This synoptic diagram allows seeing business threats from different perspectives. When designing countermeasures, it allows focusing on particular factors enables effective response. When discussing the right way to respond, leadership abilities to participate in the prevention and managing of corporate crises based on previous empirical studies. In other words, are to be consider experiences from leaders who survive crisis event. Thanks to the proposed solutions, leaders have the ability to be prepared for the crisis and have an idea which factors are crucial when crisis occurs to survive successfully.

This study will be the basis for elaborating a deeper analysis, identification of key relationships and factors related to crisis management and leadership. Assuming to overcome referred typical problems associated with the exploration of crises, in this direction is anticipated further research. However, attention will be also given to other aspects of personnel management, whether individuals or crisis teams. Also expected is developing the current state of knowledge in the field of internal sources of the crisis. Especially, the possible negative and

nearly destructive leadership is very unfriendly to business success. Researchers have already defined many personality traits characteristic of executives for companies with an unhealthy corporate culture, but there still is place for further research and development of leadership during crisis. Therefore, the future research will be probably oriented from a psychological point of view, just to these personality traits, which can ultimately lead to the creation of internal corporate crisis.

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